

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Ashley	County Gratiot
Fiscal Year End February 28, 2006	Opinion Date June 15, 2006	Date Audit Report Submitted to State 8/4/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

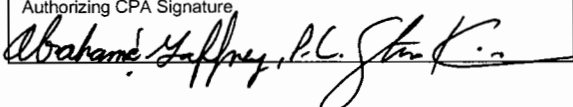
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA	License Number 1101022020

**Village of Ashley
Gratiot County, Michigan**

FINANCIAL STATEMENTS

February 28, 2006

Village of Ashley
Gratiot County, Michigan

February 28, 2006

VILLAGE OFFICERS AND TRUSTEES

Marcella Thompson	President
Duane Schneider	President Pro-tem
Wanda Beracy	Treasurer
Carol Denniston	Clerk
Ann Paksi	Trustee
Jamerson Bearden	Trustee
Karen Friesorger	Trustee
Sherri Brzak	Trustee
Mike Turner	Trustee

Village of Ashley

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Michael T. Gaffney, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Ashley
Ashley, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ashley, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Ashley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ashley, Michigan as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of March 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

The following is a discussion and analysis of Village of Ashley's (the Village's) financial performance and position, providing an overview of the activities for the year ended February 28, 2006. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Village's financial statements, which follow this section. Fiscal year 2005-2006 represents the first year the Village implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Therefore, this discussion and analysis provides few comparisons with the previous year. Future reports will include financial comparisons to the prior year as required by GASB.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$1,041,452.
- Governmental activities net assets were \$640,120.
- Business-type activities net assets were \$401,332.

Fund Level:

- At the close of the fiscal year, the Village's governmental funds reported a combined ending fund balance of \$380,636 with that entire amount shown as unreserved and undesignated.
- The General Fund realized \$5,263 more in revenues than anticipated for the fiscal year. The General Fund operations expended \$3,501 less than appropriated.
- Overall, the General Fund balance decreased by \$14,662 to \$261,300.

Capital and Long-term Debt Activities:

- The Village issued no new debt issues for the year.
- The Village had total long-term debt of \$52,751 outstanding at year end.
- The Village remains well below its authorized legal debt limit.
- The total net change to the capital asset schedule for the primary government was \$55,311.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's annual financial report. The annual financial report of the Village consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds.

Government-wide Financial Statements (Reporting the Village as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Village as a whole, and about its activities. Their purpose is to assist in answering the question, is the Village, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business.

This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Village's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Village's financial position is improving or deteriorating.

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

The Statement of Activities (page 2) presents information showing how the Village's net assets changed during the 2005-2006 fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the Village's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the Village's general government departments, law enforcement, economic development, Village improvements, street improvements, recreation activities, and other Village-wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The Village charges fees to recover the cost of the services provided. The Water System Fund and the Sewer System Fund make up the business-type activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

In addition, it should be noted that the government-wide financial statements include the net value of the Village's general capital assets such as buildings, land, vehicles, equipment, infrastructure, etc. These values are not included in the fund financial statements.

Fund Financial Statements (Reporting the Village's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Village's significant (major) funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Village uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Village of Ashley include the General Fund, the Major Street Fund, the Local Street Fund, the Sewer System Fund, and the Water System Fund. All other funds are reported in aggregate by the applicable fund type.

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

The Village's funds are divided into two categories - governmental and proprietary - and use different accounting approaches:

- **Governmental Funds** - Most of the Village's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Village's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted).
- **Proprietary Funds** - Services for which the Village charges customers (whether outside the Village structure or a Village department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. The Village has one type of proprietary fund. *Enterprise funds* report activities that provide supplies and/or services to the general public. Examples are the Sewer System Fund and the Water System Fund.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 12 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

As previously stated, the Village of Ashley's combined net assets were \$1,041,452 at the end of this year's operations. The net assets of the governmental activities were \$640,120; the business-type activities were \$401,332.

Summary of Net Assets:

The following summarizes the net assets as of February 28, 2006.

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 394,623	\$ 61,953	\$ 456,576
Capital assets	<u>307,150</u>	<u>341,039</u>	<u>648,189</u>
Total assets	701,773	402,992	1,104,765
Liabilities			
Current liabilities	25,759	1,660	27,419
Noncurrent liabilities	<u>35,894</u>	<u>-</u>	<u>35,894</u>
Total liabilities	61,653	1,660	63,313

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

Summary of Net Assets - continued:

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets - net of related debt	\$ 254,399	\$ 341,039	\$ 595,438
Restricted	119,336	-	119,336
Unrestricted	<u>266,385</u>	<u>60,293</u>	<u>326,678</u>
Total net assets	<u>\$ 640,120</u>	<u>\$ 401,332</u>	<u>\$ 1,041,452</u>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ended February 28, 2006

	Governmental Activities	Business-type Activities	Total
Revenue			
Program Revenue:			
Charges for services	\$ 77,749	\$ 119,123	\$ 196,872
Grants and contributions	50,219	-	50,219
General Revenue			
Property taxes	82,251	-	82,251
State shared revenue	55,976	-	55,976
Investment earnings	7,857	386	8,243
Miscellaneous	3,360	-	3,360
Internal charges	<u>6,186</u>	<u>(6,186)</u>	<u>-0-</u>
Total revenue	283,598	113,323	396,921
Expenses			
General government	123,528	-	123,528
Public safety	46,368	-	46,368
Public works	46,792	-	46,792
Health and welfare	11,815	-	11,815
Recreation and cultural	2,802	-	2,802
Other	2,637	-	2,637
Sewer system operations	-	46,721	46,721
Water system operations	<u>-</u>	<u>53,810</u>	<u>53,810</u>
Total expenses	<u>233,942</u>	<u>100,531</u>	<u>334,473</u>
Change in net assets	49,656	12,792	62,448
Net assets, beginning of year	<u>590,464</u>	<u>388,540</u>	<u>979,004</u>
Net assets, end of year	<u>\$ 640,120</u>	<u>\$ 401,332</u>	<u>\$ 1,041,452</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

Governmental Activities:

The result of 2005-2006 governmental activity was an increase of \$49,656 in net assets to \$640,120. Of the total governmental activities' net assets, \$254,399 is invested in capital assets, \$119,336 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the Village government. The balance of \$266,385 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories were property taxes at 29%, charges for services at 27%, and State shared revenue at 20%. The Village levied one property tax millage for the year ended February 28, 2006, for general government operations at 11.3142 mills, which is not assigned to any particular activity.

Expenses:

General government is the largest governmental activity, expending approximately 53% of the governmental activities total and includes the Legislative, President, Clerk, Treasurer, Assessor, Elections, and Hall and Grounds departments. Public works is the second largest activity, expending approximately 20% of the governmental activities total and includes public street maintenance and refuse collection.

Business-type Activities:

Net assets in business-type activities increased by \$12,792 during the 2005-2006 fiscal year. Of the business-type activities' net assets, \$341,039 is invested in capital assets less related debt. The balance of \$60,293 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE VILLAGE'S MAJOR AND NONMAJOR FUNDS

As the Village completed the 2005-2006 fiscal year, its governmental funds reported *combined* fund balances of \$435,340. This was a net increase of \$67,566. The net changes are summarized in the following chart:

	<u>General Fund</u>	<u>Major Street</u>	<u>Local Street</u>
Fund Balance 2/28/05	\$ 275,962	\$ 74,310	\$ 54,616
Fund Balance 2/28/06	<u>261,300</u>	<u>93,869</u>	<u>25,467</u>
Net Change	<u><u>\$(14,662)</u></u>	<u><u>\$ 19,559</u></u>	<u><u>\$(29,149)</u></u>

General Fund:

The General Fund is the chief operating fund of the Village. Unless otherwise required by statute, contractual agreement or Council policy, all Village revenues and expenditures are recorded in the General Fund. As of February 28, 2006, the General Fund reported a fund balance of \$261,300. This amount is a decrease of \$14,662 from the fund balance of \$275,962 reported as of February 28, 2005. The 2005-2006 final amended budget called for a \$23,426 use of fund balance.

Village of Ashley

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

General Fund Budgetary Highlights:

The Village of Ashley's budget is a dynamic document. Although adopted in February each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenues totaled \$235,370; \$5,263 above the final amended budget. The final amended was higher than the original budget by \$21,246. The largest variance between actual revenues and the final amended budget was in charges for services.

The Village's expenditure budget was increased by \$44,672 during the fiscal year. Actual Village expenditures for the fiscal year were \$3,501 under budget. General Fund actual expenditures were \$250,032 and the final budgeted amounts totaled \$253,533.

Major Street Fund:

As of February 28, 2006, the Major Street Fund reported a fund balance of \$93,869, an increase of \$19,559 from the prior year's fund balance. The total fund balance is undesignated/unreserved.

The original budget and the final budget were the same for revenues and expenditures in this fund and actual revenues and expenditures were reasonable compared to budget.

Local Street Fund:

As of February 28, 2006, the Local Street Fund reported a fund balance of \$25,467, a decrease of \$29,149. The total fund balance is undesignated/unreserved.

The original budget and the fiscal budget were the same for revenues and expenditures in this fund and actual revenues and expenditures were reasonable compared to budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of the fiscal year, the Village had invested \$648,189, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$1,005,248 for the primary government. Depreciation charges for the fiscal year totaled \$61,290 for the primary government. Additional information related to capital assets is detailed in Note D of the Financial Statements. Net book value of capital assets at February 28, 2006, was as follows:

	Governmental Activities	Business-type Activities	Total
Land	\$ -	\$ 12,405	\$ 12,405
Buildings and improvements, net	26,613	-	26,613
Infrastructure, net	55,405	-	55,405
Vehicles and equipment, net	225,132	-	225,132
Sewer system, net	-	207,210	207,210
Water system, net	-	121,424	121,424
Capital assets, net	\$ 307,150	\$ 341,039	\$ 648,189

Long-term Debt - As of February 28, 2006, the Village had \$52,751 in outstanding debt. There are three (3) annual payments remaining on the 1998 Fire Truck loan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 28, 2006

Outstanding Debt as of February 28, 2006:

	<u>March 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Feb. 28, 2006</u>
Governmental Activities				
1998 Fire Truck loan	<u>\$ 68,927</u>	<u>\$ -</u>	<u>\$ 16,176</u>	<u>\$ 52,751</u>

A more detailed discussion of the Village's long-term debt obligations is presented in Note E to the Financial Statements.

VILLAGE OF ASHLEY GOVERNMENT ECONOMIC OUTLOOK

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Further cuts in revenue sharing funds could affect the services that we provide to the citizens of the Village of Ashley.

Other factors that the Village is aware of are:

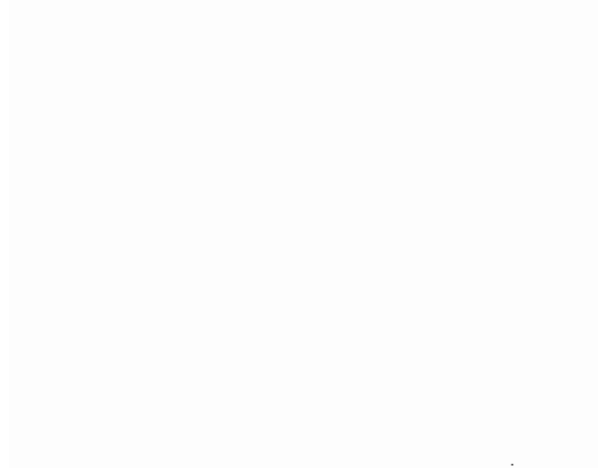
- Property tax revenue does seem to be keeping pace with inflation.
- Investment earnings are rising in recent years.
- Health insurance premiums are rising much faster than the rate of inflation.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the budget for the 2006-2007 fiscal year. The Village continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE VILLAGE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Village offices at (989) 847-3050.

BASIC FINANCIAL STATEMENTS



Village of Ashley

STATEMENT OF NET ASSETS

February 28, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash	\$ 190,418	\$ 52,085	\$ 242,503
Investments	183,062	-	183,062
Receivables	12,083	9,868	21,951
Due from other governmental units	9,060	-	9,060
Total current assets	394,623	61,953	456,576
Noncurrent assets			
Capital assets not being depreciated	-	12,405	12,405
Capital assets being depreciated, net	307,150	328,634	635,784
Total noncurrent assets	307,150	341,039	648,189
TOTAL ASSETS	701,773	402,992	1,104,765
LIABILITIES			
Current liabilities			
Accounts payable	1,265	1,660	2,925
Accrued wages	4,045	-	4,045
Other accrued liabilities	2,658	-	2,658
Accrued interest payable	934	-	934
Current portion of long-term debt	16,857	-	16,857
Total current liabilities	25,759	1,660	27,419
Noncurrent liabilities			
Note payable	35,894	-	35,894
TOTAL LIABILITIES	61,653	1,660	63,313
NET ASSETS			
Invested in capital assets, net of related debt	254,399	341,039	595,438
Restricted for streets and highways	119,336	-	119,336
Unrestricted	266,385	60,293	326,678
TOTAL NET ASSETS	<u>\$ 640,120</u>	<u>\$ 401,332</u>	<u>\$ 1,041,452</u>

See accompanying notes to financial statements.

STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			Total
	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	
Governmental activities				
General government	\$ 123,528	\$ 3,319	\$ -	\$ (120,209)
Public safety	46,368	44,589	-	(1,779)
Public works	46,792	18,658	50,219	22,085
Health and welfare	11,815	11,183	-	(632)
Recreation and cultural	2,802	-	-	(2,802)
Interest on long-term debt	2,637	-	-	(2,637)
Total governmental activities	233,942	77,749	50,219	(105,974)
Business-type activities				
Sewer	46,721	50,703	-	3,982
Water	53,810	68,420	-	14,610
Total business-type activities	100,531	119,123	-0-	18,592
Total	\$ 334,473	\$ 196,872	\$ 50,219	(87,382)
General revenues				
Property taxes				82,251
State shared revenue				55,976
Investment earnings				7,857
Miscellaneous				3,360
Internal charges				(6,186)
Total general revenues and internal charges				149,830
Change in net assets				62,448
Net assets, beginning of the year				979,004
Net assets, end of the year				\$ 1,041,452

See accompanying notes to financial statements.

Village of Ashley

GOVERNMENTAL FUNDS BALANCE SHEET

February 28, 2006

	General	Major Street	Local Street	Total Governmental Funds
ASSETS				
Cash	\$ 88,429	\$ 79,108	\$ 22,881	\$ 190,418
Investments	174,775	8,287	-	183,062
Receivables				
Taxes	2,676	-	-	2,676
Accounts	9,407	-	-	9,407
Due from other governmental units	-	6,474	2,586	9,060
TOTAL ASSETS	<u>\$ 275,287</u>	<u>\$ 93,869</u>	<u>\$ 25,467</u>	<u>\$ 394,623</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,265	\$ -	\$ -	\$ 1,265
Accrued wages	4,045	-	-	4,045
Other accrued liabilities	2,658	-	-	2,658
Deferred revenue	6,019	-	-	6,019
TOTAL LIABILITIES	13,987	-0-	-0-	13,987
FUND BALANCES				
Unreserved				
Undesignated, reported in				
General fund	261,300	-	-	261,300
Special revenue funds	-	93,869	25,467	119,336
TOTAL FUND BALANCES	<u>261,300</u>	<u>93,869</u>	<u>25,467</u>	<u>380,636</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 275,287</u>	<u>\$ 93,869</u>	<u>\$ 25,467</u>	<u>\$ 394,623</u>

See accompanying notes to financial statements.

Village of Ashley

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

February 28, 2006

Total fund balance - governmental funds \$ 380,636

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 602,288	
Accumulated depreciation is	<u>(295,138)</u>	
Capital assets, net		307,150

Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue		6,019
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Note payable	(52,751)	
Accrued interest payable	<u>(934)</u>	
		<u>(53,685)</u>

Net assets of governmental activities \$ 640,120

See accompanying notes to financial statements.

Village of Ashley

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended February 28, 2006

	General	Major Street	Local Street	Total Governmental Funds
REVENUES				
Taxes	\$ 82,251	\$ -	\$ -	\$ 82,251
Licenses and permits	200	1,670	-	1,870
Intergovernmental	55,976	35,885	14,334	106,195
Charges for services	85,948	-	-	85,948
Interest and rents	7,484	578	95	8,157
Other	3,511	-	-	3,511
TOTAL REVENUES	235,370	38,133	14,429	287,932
EXPENDITURES				
Current				
General government	121,208	-	-	121,208
Public safety	27,225	-	-	27,225
Public works	23,434	9,622	7,188	40,244
Health and welfare	9,905	-	-	9,905
Recreation and cultural	2,072	-	-	2,072
Debt service	19,099	-	-	19,099
Capital outlay	47,089	-	45,342	92,431
TOTAL EXPENDITURES	250,032	9,622	52,530	312,184
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(14,662)	28,511	(38,101)	(24,252)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	8,952	8,952
Transfers out	-	(8,952)	-	(8,952)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(8,952)	8,952	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(14,662)	19,559	(29,149)	(24,252)
Fund balances, beginning of year	275,962	74,310	54,616	404,888
Fund balances, end of year	\$ 261,300	\$ 93,869	\$ 25,467	\$ 380,636

See accompanying notes to financial statements.

Village of Ashley

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2006

Net change in fund balances - total governmental funds \$ (24,252)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 90,487	
Depreciation expense	<u>(35,176)</u>	
Excess of capital outlay over depreciation expense		55,311

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Increase in deferred revenue	2,135
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Loan principal retirement	16,176	
Decrease in accrued interest payable	<u>286</u>	
		<u>16,462</u>

Change in net assets of governmental activities	\$ <u>49,656</u>
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Village of Ashley

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

February 28, 2006

	Business-type Activities		
	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash	\$ 2,295	\$ 49,790	\$ 52,085
Utilities receivable	4,839	5,029	9,868
Total current assets	7,134	54,819	61,953
Noncurrent assets			
Capital assets not being depreciated	12,405	-	12,405
Capital assets being depreciated, net	207,210	121,424	328,634
Total noncurrent assets	219,615	121,424	341,039
TOTAL ASSETS	226,749	176,243	402,992
LIABILITIES			
Current liabilities			
Accounts payable	530	1,130	1,660
NET ASSETS			
Invested in capital assets	219,615	121,424	341,039
Unrestricted	6,604	53,689	60,293
TOTAL NET ASSETS	\$ 226,219	\$ 175,113	\$ 401,332

See accompanying notes to financial statements.

Village of Ashley

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS

Year Ended February 28, 2006

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 50,703	\$ 68,420	\$ 119,123
OPERATING EXPENSES			
Salaries and wages	6,108	14,939	21,047
Supplies	6,313	20,288	26,601
Contractual services	6,350	2,812	9,162
Utilities	1,754	4,067	5,821
Repairs and maintenance	3,926	3,358	7,284
Sample testing	1,570	1,010	2,580
Equipment rental	1,101	5,085	6,186
Insurance	1,072	413	1,485
Other	219	218	437
Depreciation	19,409	6,705	26,114
TOTAL OPERATING EXPENSES	47,822	58,895	106,717
OPERATING INCOME	2,881	9,525	12,406
NONOPERATING REVENUES			
Interest revenue	94	292	386
CHANGE IN NET ASSETS	2,975	9,817	12,792
Net assets, beginning of year	223,244	165,296	388,540
Net assets, end of year	\$ 226,219	\$ 175,113	\$ 401,332

See accompanying notes to financial statements.

Village of Ashley

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended February 28, 2006

	Business-type Activities		
	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 49,489	\$ 68,420	\$ 117,909
Cash paid for labor charges	(6,108)	(14,939)	(21,047)
Cash paid to suppliers	(21,775)	(36,122)	(57,897)
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,606	17,359	38,965
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(59,487)	(31,474)	(90,961)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	94	292	386
NET (DECREASE) IN CASH	(37,787)	(13,823)	(51,610)
Cash, beginning of year	40,082	63,613	103,695
Cash, end of year	<u>\$ 2,295</u>	<u>\$ 49,790</u>	<u>\$ 52,085</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 2,881	\$ 9,525	\$ 12,406
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	19,409	6,705	26,114
(Increase) in utilities receivable	(1,214)	-	(1,214)
Increase in accounts payable	530	1,129	1,659
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 21,606</u>	<u>\$ 17,359</u>	<u>\$ 38,965</u>

See accompanying notes to financial statements.

Village of Ashley

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

February 28, 2006

	Agency Fund
ASSETS	
Cash	<u>\$ 3,014</u>
LIABILITIES	
Due to individuals and agencies	<u>\$ 3,014</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Ashley is located in Gratiot County, Michigan and has a population of approximately 526. The Village of Ashley operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, President Pro-tem, Clerk, Treasurer, and five (5) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Ashley (primary government).

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources used for repairs and maintenance of the Village's local streets.
- d. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the required supplementary information.

- a. Prior to March 1, the Village Council prepares the proposed operating budgets for the fiscal year commencing March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 1, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level; however, they are maintained at the account level for control purposes.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 28, 2006 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures.

6. Cash and Investments

Cash consists of various checking accounts. Investments consist of certificates of deposit with an original maturity of greater than 90 days. All investments are stated at market value.

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Property Taxes

The Village of Ashley bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Ashley on July 1 and are payable without penalty through September 14. All real property taxes not paid to the Village by September 15 are turned over to the Gratiot County Treasurer for collection. The Gratiot County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 12.5 mills (\$12.50 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 28, 2006, the Village levied 11.3142 mills for general governmental services. The total taxable value for the 2005 levy for property within the Village was \$7,157,595.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers.

The General Fund records charges for equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an initial individual cost of \$2,500 or more, with estimated useful lives of one year or greater. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Utility plant, wells and mains	33 - 50 years
Sewer system	50 years
Vehicles and equipment	5 - 20 years
Infrastructure - streets	20 years
Buildings and improvements	20 - 40 years

10. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Long-Term Obligations - continued

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

11. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146..
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE B: CASH AND INVESTMENTS - CONTINUED

As of February 28, 2006, the carrying amounts and bank balances for each type of bank account are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 245,517	\$ 243,756
Certificates of deposit	<u>183,062</u>	<u>183,062</u>
	<u>\$ 428,579</u>	<u>\$ 426,818</u>

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2006, the carrying amount of the Village's deposits was \$428,579 and the bank balance was \$426,818, of which \$242,141 was covered by federal depository insurance. The remaining balance of \$184,677 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of February 28, 2006, the Village did not have any investments that would be subject to rating.

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The cash and investments referred to above have been reported in either the cash or investments captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 28, 2006:

	<u>Primary Government</u>	<u>Fiduciary Fund</u>	<u>Reporting Entity</u>
Cash	\$ 242,503	\$ 3,014	\$ 245,517
Investments	<u>183,062</u>	<u>-</u>	<u>183,062</u>
	<u>\$ 425,565</u>	<u>\$ 3,014</u>	<u>\$ 428,579</u>

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Local Street Fund from:	
Major Street Fund	<u>\$ 8,952</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2006 was as follows:

	Balance March 1, 2005	Additions	Deletions	Balance Feb. 28, 2006
Governmental activities				
Capital assets being depreciated				
Buildings and improvements	\$ 65,000	\$ 3,898	\$ -	\$ 68,898
Infrastructure	12,104	45,342	-	57,446
Vehicles and equipment	<u>434,697</u>	<u>41,247</u>	<u>-</u>	<u>475,944</u>
Subtotal	511,801	90,487	-0-	602,288
Less accumulated depreciation				
Buildings and improvements	(41,313)	(972)	-	(42,285)
Infrastructure	(302)	(1,739)	-	(2,041)
Vehicles and equipment	<u>(218,347)</u>	<u>(32,465)</u>	<u>-</u>	<u>(250,812)</u>
Subtotal	<u>(259,962)</u>	<u>(35,176)</u>	<u>-0-</u>	<u>(295,138)</u>
Capital assets, net	<u>\$ 251,839</u>	<u>\$ 55,311</u>	<u>\$ -0-</u>	<u>\$ 307,150</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 376
Public safety	19,143
Public works	13,017
Health and welfare	1,910
Recreation and cultural	<u>730</u>
Total	<u>\$ 35,176</u>

	Balance March 1, 2005	Additions	Deletions	Balance Feb. 28, 2006
Business-type activities				
Capital assets not being depreciated				
Land - sewer	\$ 12,405	\$ -	\$ -	\$ 12,405
Capital assets being depreciated				
Utility plant, wells, and mains - water	291,461	31,474	-	322,935
Sewer system	<u>656,322</u>	<u>59,487</u>	<u>-</u>	<u>715,809</u>
Subtotal	947,783	90,691	-0-	1,038,744

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE D: CAPITAL ASSETS - CONTINUED

	Balance March 1, 2005	Additions	Deletions	Balance Feb. 28, 2006
Business-type activities - continued				
Less accumulated depreciation				
Utility plant, wells, and mains - water	\$(194,806)	\$(6,705)	\$ -	\$(201,511)
Sewer system	(489,190)	(19,409)	-	(508,599)
Subtotal	(683,996)	(26,114)	-0-	(710,110)
Net capital assets being depreciated	263,787	64,847	-	328,634
Capital assets, net	\$ 276,192	\$ 64,847	\$ -0-	\$ 341,039

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended February 28, 2006.

	Restated Balance March 1, 2005	Additions	Reductions	Balance Feb. 28, 2006	Amounts Due Within One Year
Fire Truck note payable	\$ 68,927	\$ -	\$ 16,176	\$ 52,751	\$ 16,857

Note Payable

\$153,000 Fire truck loan dated October 6, 1998, due in annual installments of \$19,099 through October 6, 2008, with interest at 4.25 percent.

\$ 52,751

Commitments under this agreement provide for minimum annual payments as follows:

Year Ending February 28,	Principal	Interest
2007	\$ 16,857	\$ 2,242
2008	17,574	1,525
2009	18,320	779
	\$ 52,751	\$ 4,546

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the activity level. The approved budgets of the Village have been adopted at the activity level and the total expenditure level for the General and Special Revenue Funds, respectively.

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE F: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended February 28, 2006, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Legislative	\$ 2,320	\$ 2,890	\$ 570
Clerk	9,878	10,089	211
Public works			
Street lighting	8,000	8,025	25
Rubbish collection	15,360	15,409	49
Recreation and cultural			
Parks	1,975	2,072	97

NOTE G: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for various risks of loss including liability, crime bond and oath, and property, employee dishonesty, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE H: RETIREMENT PLAN

The Village of Ashley is the sponsor of a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plan for the sole benefit of its employees. The Village of Ashley Pension Plan is a SIMPLE defined contribution pension benefit plan, which is authorized under the 408(p) of the Internal Revenue Code. All Village employees are eligible to participate. During the year ended February 28, 2006, the Village of Ashley was required to contribute for all eligible employees at a minimum rate of 3% of wages. Employees may elect to contribute additional amounts at a predetermined rate of their compensation. The plan is administered by Capital Guardian Trust.

For the year ended February 28, 2006, the Village had a total payroll of \$80,609. The Village of Ashley Retirement Plan covered a payroll of \$45,900. The Village made contributions to the retirement plan in the amount of \$1,377 in employer contributions and voluntary contributions from employees in the amount of \$1,377.

Village of Ashley

NOTES TO FINANCIAL STATEMENTS

February 28, 2006

NOTE I: BUILDING AND ZONING FINANCIAL INFORMATION

The Village elected to report the financial activities of the building and zoning activity in the general fund. The following is the required information as it relates to this activity for the year ended February 28, 2006.

REVENUES	
Building Permits	\$ 200
EXPENDITURES	
Contracted services	<u>200</u>
TOTAL EXPENDITURES	<u>200</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ <u>-0-</u>

NOTE J: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 28, 2006:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Streets and highways	
Major streets	\$ 93,869
Local streets	<u>25,467</u>
	<u>\$ 119,336</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Ashley

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 75,400	\$ 82,700	\$ 81,198	\$ (1,502)
Penalties	-	-	233	233
Tax collection fees	-	-	820	820
Total taxes	75,400	82,700	82,251	(449)
Licenses and permits				
Building and zoning permits	150	150	200	50
Intergovernmental				
State shared revenue	55,000	55,000	55,976	976
Charges for services				
Equipment rental	9,319	13,319	15,973	2,654
Ambulance runs	475	475	1,950	1,475
Ambulance contracts	7,525	7,525	6,648	(877)
Fire runs	-	-	4,446	4,446
Fire contracts	38,988	47,276	39,943	(7,333)
Rubbish collection	16,362	16,362	16,988	626
Total charges for services	72,669	84,957	85,948	991
Interest and rents				
Interest	5,342	7,000	7,184	184
Rent - equipment	300	300	300	-
Total interest and rents	5,642	7,300	7,484	184
Other revenue				
Reimbursements	-	-	580	580
Miscellaneous	-	-	2,931	2,931
Total other revenue	-0-	-0-	3,511	3,511
TOTAL REVENUES	208,861	230,107	235,370	5,263
EXPENDITURES				
General government				
Legislative	2,320	2,320	2,890	(570)
Executive	461	636	636	-
Clerk	9,850	9,878	10,089	(211)
Treasurer	2,280	3,546	3,217	329
Hall and grounds	107,850	105,232	104,376	856
Total general government	122,761	121,612	121,208	404

Village of Ashley

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 28, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public safety				
Fire department	\$ 26,140	\$ 27,225	\$ 27,225	\$ -0-
Public works				
Street lighting	8,000	8,000	8,025	(25)
Rubbish collection	15,360	15,360	15,409	(49)
Total public works	23,360	23,360	23,434	(74)
Health and welfare				
Ambulance	8,000	9,905	9,905	-0-
Recreation and cultural				
Parks	2,000	1,975	2,072	(97)
Debt service				
Principal	16,176	16,176	16,176	-0-
Interest	2,924	2,924	2,923	1
Total debt service	19,100	19,100	19,099	1
Capital outlay	7,500	50,356	47,089	3,267
TOTAL EXPENDITURES	208,861	253,533	250,032	3,501
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	(23,426)	(14,662)	8,764
Fund balance, beginning of year	275,962	275,962	275,962	-0-
Fund balance, end of year	\$ 275,962	\$ 252,536	\$ 261,300	\$ 8,764

Village of Ashley

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ -	\$ -	\$ 1,670	\$ 1,670
Intergovernmental - State	35,000	35,000	35,885	885
Interest	-	-	578	578
TOTAL REVENUES	35,000	35,000	38,133	3,133
EXPENDITURES				
Public works	26,048	26,048	9,622	16,426
EXCESS OF REVENUES OVER EXPENDITURES	8,952	8,952	28,511	19,559
OTHER FINANCING USES				
Transfers out	(8,952)	(8,952)	(8,952)	-0-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	19,559	19,559
Fund balance, beginning of year	74,310	74,310	74,310	-0-
Fund balance, end of year	<u>\$ 74,310</u>	<u>\$ 74,310</u>	<u>\$ 93,869</u>	<u>\$ 19,559</u>

Village of Ashley

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 14,000	\$ 14,000	\$ 14,334	\$ 334
Interest	-	-	95	95
TOTAL REVENUES	14,000	14,000	14,429	429
EXPENDITURES				
Public works	8,260	8,260	7,188	1,072
Capital outlay	47,842	47,842	45,342	2,500
TOTAL EXPENDITURES	56,102	56,102	52,530	3,572
EXCESS OF REVENUES (UNDER) EXPENDITURES	(42,102)	(42,102)	(38,101)	4,001
OTHER FINANCING SOURCES				
Transfers in	-	-	8,952	8,952
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(42,102)	(42,102)	(29,149)	12,953
Fund balance, beginning of year	54,616	54,616	54,616	-0-
Fund balance, end of year	<u>\$ 12,514</u>	<u>\$ 12,514</u>	<u>\$ 25,467</u>	<u>\$ 12,953</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Ashley
Ashley, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Village of Ashley, Michigan for the year ended February 28, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Village should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Village may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, utility billing, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Village Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. This issue was noted and reported in our prior audit comments.

We suggest that the Village review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Village Council provide a greater review and supervision of employee functions and procedures.

2. Budgets should be adopted for the General and all Special Revenue funds and monitored and amended when necessary.

During the course of our audit, we noted expenditures in excess of amounts appropriated in the General Fund. Several of the variances noted in the General Fund were caused by adjustments proposed and posted during the audit process. Similar issues were noted and reported in our audit comments in the prior year.

The Michigan Public Act 621 of 1978, as amended, provides that the Village shall not incur expenditures in excess of the amounts appropriated. The Village is also required to adopt budgets for the General and all Special Revenue Funds.

We suggest the Village adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

3. Fire and Rescue activities should be evaluated to determine if the entities should submit documentation for an audit.

The Village of Ashley Fire and Rescue boards each have bank accounts that are used for fundraising activities. The funds are spent by these boards for supplementary needs of the Village Fire and Rescue employees such as equipment and uniforms that are not covered by the Village. The Fire board account is held under a separate employer ID number, but the Rescue account is held under the Village's EIN. Each organization has a separate Board that is not under the control of the Village Council, though there are some overlapping members of all three organizations.

Neither of these organizations is considered material to the financial statements of the Village and they are therefore not included in the financial statements. Additionally, it is unclear as to what control or responsibility the Village has with respect to these organizations, their bank accounts, and their financial activity, as well as their organizational structure as either separate not-for-profit entities or part of the local unit of government.

We would like to make the following suggestions with respect to these organizations:

- a. Both of these organizations should be subject to at least a semi-annual audit, whether that is as part of the Village's audit or separately. This determination should be made by those boards in conjunction with the Village Council. Inclusion of those organizations in the Village's audit is outside the scope of our current engagement with the Village, but those arrangements can easily be made if necessary.
- b. We are not aware of either of these organizations being granted tax exempt status by the IRS, if applicable. This would be applicable if it is determined that the organizations are outside the Village's reporting entity but not a separate local unit of government. Donors should be made aware of this when donations are made as donations to an organization that is not a governmental entity or an approved nonprofit entity are not deductible for income tax purposes. Possible ramifications of IRS involvement in this issue are impossible to predict.
- c. We are not aware of either of these organizations being granted a license to solicit donations by the State Attorney General, if applicable. This would be applicable if it is determined that the organizations are outside the Village's reporting entity but not a separate local unit of government. Possible ramifications of Attorney General involvement in this issue are impossible to predict.
- d. The Fire board records are not in a condition that would make an audit possible. There is no general ledger or check register available, nor are periodic bank reconciliations prepared. The Fire board also declined to provide minutes of its meetings pursuant to our request, which was made for the purpose of determining the nature of this organization and its relationship to the Village.
- e. The Rescue board account should either be moved under a different EIN or it should be placed under the control of the Village Treasurer.

4. The Village should consider adopting additional administrative policies and procedures.

Based on our discussions with management, we noted that the Village has not formally adopted written policies for some areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Village develop, formally adopt, and implement written policies in the following areas:

- a. Capital assets - We suggest the Village adopt a capital asset policy. The policy should identify the dollar threshold for items to be included as capital assets as well as defining asset depreciation parameters and other issues.
- b. Code of conduct - We suggest the Village adopt a code of conduct. The code should include a policy on conflicts of interest and the Village should require employees and Board members to periodically make a declaration of compliance.

5. Personal vehicles should not be filled with gasoline from Village tanks.

During the course of our audit and discussions with management, we became aware that it has been the practice of certain individuals to fill the gas tanks of their personal vehicle from the Village fuel tank as a substitute for requesting mileage reimbursement for miles driven on Village business. The individuals in question state that this practice saves the Village money, but since there are no records of gasoline that has been taken or miles driven this is impossible to quantify or substantiate. Because of the lack of records in this area it is also impossible to assess the effect of this activity on the financial statements as well as the potential IRS implications that could arise from this type of practice. However, based on our discussions with management, we consider this to be more of an internal control and policy issue than one involving potential material misstatement of the financial statements.

We suggest that the Village Council adopt a policy and implement appropriate procedures to ensure that personal vehicles are never filled from the Village tanks. Individuals driving on Village business should submit documentation to the Village Clerk for reimbursement. This documentation should include the miles driven, the date, and the business purpose of the travel.

6. The Village Council should be mindful of allowable expenditures.

During our discussions with management and review of minutes, we noted that a retirement party was intended to be held at the Village's expense. It was later determined that the party was never held at all. Additionally, it was noted that flowers may have been sent by the Council and paid for with Village funds. Neither of these are allowable expenditures under Michigan law.

In its *Bulletin for Audits of Local Units of Government*, the Michigan Department of Treasury lists expenditures that would not serve a public purpose and are therefore unlawful. This Bulletin may be found at http://www.michigan.gov/treasury/0,1607,7-121-1751_2194-5984--,00.html but some of the more common unlawful expenditures are:

- Contributions to churches, veterans, non-profit organizations.
- Donations to community organizations.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed (AGO 2346 dated July 18, 1956).

We suggest that the Village review the full list of prohibited expenditures and take steps to ensure that all expenditures serve a public purpose and are therefore lawful.

7. The Village should consider retroactive infrastructure reporting.

This year's audit represents the first time that the Village has been required to present its financial statements in accordance with the provisions of GASB 34. GASB 34 required the Village to inventory the major capital assets that it has and depreciate them for the new government-wide financial statements. As part of this, the Village is now required to include current and future infrastructure as part of capital assets.

Governmental entities larger than the Village are being required by GASB 34 to review historical records to determine the value of infrastructure placed in service since 1980 for inclusion in the financial statements. Because of the Village's size, this is not required but the inclusion of such items as streets and sidewalks in the financial statements demonstrates the investment that has been made and is therefore very desirable.

We suggest that the Village review historical records to determine the approximate cost of past infrastructure projects for inclusion in future financial statements.

8. The Village should ensure that all employee timesheets are signed before payment.

During our testing of the payroll process, we noted that two (2) of the five (5) employee timesheets we tested were not signed by the employee. The Village's policy requires that all timesheets be signed by the employee before payment.

We suggest the Village take steps to ensure that all timesheets are signed before they are processed for payment.

9. The Council should amend the Village's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Village has not amended their investment policy to address various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Village's funds. These resources are necessary for the delivery of the Village's services programs. Effective for the year ended February 28, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due.

We suggest the Council review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Village's financial statements by GASB Statement No. 40.

10. The Village should consider having an annual audit.

Under Michigan law, the Village is required to have an audit every other year at a minimum as a local unit with a population of 4,000 or less. Many local units are not specifically required to have annual audits performed but choose to have it done. Some of the benefits of having an annual audit are:


- Timelier follow-up of management letter comments. Our prior audit contained several suggestions for improvement as does the current year. An annual audit would assure that these issues are re-visited annually.
- More accurate financial information. The Village operates on a cash basis of accounting, with adjustments to modified or full accrual basis being suggested by the auditors. Since this is only done every other year, a significant number of adjustments are typically suggested. Not having adjusted financial information means that the Council is not seeing the full financial picture in a timely manner.
- Issuance of an annual management letter. The management letter is intended to be a tool to management as it strives to improve the internal control structure in place. It is our hope that this tool is viewed as a valuable one by the Village Council and having one each year may be desirable.
- Increased access to experts in government finance. During our fieldwork, the audit team was asked a large number of questions about operational and financial issues. We are pleased to provide this service but the volume of questions received indicates to us that a more frequent presence may be needed.

We suggest that the Village consider having the audit performed annually in the future.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements, dated June 15, 2006.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Ashley, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 15, 2006